

**PUBLIC SESSION MINUTES**  
**North Carolina State Board of CPA Examiners**  
**September 18, 2006**  
**1101 Oberlin Road**  
**Raleigh, NC 27605**

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**MEMBERS ATTENDING:** Leonard W. Jones, CPA, President; Arthur M. Winstead, Jr., CPA, Vice President; Jordan C. Harris, Jr., Secretary-Treasurer; Norwood G. Clark, Jr., CPA; Tyrone Y. Cox, CPA; Thurman L. Gause; and Michael C. Jordan, CPA.

**STAFF ATTENDING:** Robert N. Brooks, Executive Director; J. Michael Barham, CPA, Deputy Director; Lisa R. Hearne, Manager-Communications; Ann J. Hinkle, Manager-Professional Standards; Buck Winslow, Manager-Licensing; and Noel L. Allen, Legal Counsel.

**GUESTS:** James T. Ahler, CEO, NCACPA; Sharon Bryson, COO, NCACPA; William M. Faircloth, CPA; David Hooker, Past President, NCSA; and Stephen Metelits, Vice President, NCSA.

**CALL TO ORDER:** President Jones called the meeting to order at 10:03 a.m.

**MINUTES:** The minutes of the August 21, 2006, meeting were approved as submitted.

**FINANCIAL AND BUDGETARY ITEMS:** The financial statements for August 2006 were accepted as submitted.

Messrs. Winstead and Jordan moved to accept the Board audit report for the year ending March 31, 2006. Motion passed. (Appendix I)

**NATIONAL ORGANIZATION ITEMS:** Messrs. Harris and Gause moved to approve the response to the AICPA Exposure Draft on Proposed Statement on Quality Control Standards. Motion passed.

**REPORT OF THE PROFESSIONAL STANDARDS COMMITTEE:** Mr. Winstead moved and the Board approved the following recommendations of the Committee:

200512-069 - Close the case without prejudice.

200602-011 - Close the case without prejudice and with a Letter of Caution. Mr. Winstead did not participate in the discussion of this matter and abstained from the vote on this matter.

200605-031 - Close the case without prejudice and with a Letter of Caution.

200605-041 - Close the case without prejudice.

200409-036 - Jack Vernon Abernethy - Messrs. Clark and Harris moved to approve the signed Consent Order for permanent revocation. Motion passed with seven affirmative votes and zero negative votes. (Appendix II)

**REPORT OF THE PROFESSIONAL EDUCATION AND APPLICATIONS COMMITTEE:** Mr. Cox moved and the Board approved the following recommendations of the Committee:

**Transfer of Grades Applications** - The following were approved:

Jama Tracy Johnston  
Qiulian Liu Lubinski  
Mary Elizabeth Powell

**Original Certificate Applications** - The following were approved:

Timothy David Clark	Joshua Scott Mayor
Christine Elizabeth Collum	Jeremy Randal Midkiff
Benjamin Forsythe Gray	Robert M. Phillips
Dana Marie Harrington	Justin Tyler Poore
Brennan Michael Hay	Mary Elizabeth Powell
David Alan Hedges	Jeannette Ann Ray
Charles E. Holland	Sarah Beth Sink
Britta Gail Johnson	Joshua T. Sullivan
Jama Tracy Johnston	Lei Tao
Caroline M. King	Kelly Gerard Taylor
Valerie Holt Leary	Catherine Wallace
David Lee Little	James Warren Wallace
Carolyn Barr Llewellyn	Xiaoyan Zhang
Qiulian Liu Lubinski	
Lonnie J. Masdon	

**Reciprocal Certificate Applications** - The following were approved:

Sharon Leah Anderson	Timothy Brian Gertz
Hekmat M. Barahmeh	Thiru Govender
Matthew Barr	Brian Matthew Hydrick
Shannon V. Becker	Carol Land McCrary
William Stephen Boyd	Paulinus Chinedu Nwachukwu
Kimberly Therese Chambers	Gregory S. Price
Jayne Shoop Clanton	Craig B. Puno
Leslie Anne Coolidge	Jennifer Lee Quigley
Clyde A. Cornett Jr.	Jessica Reyes

Maria Kostaris Stephenson  
Alexander Voloshko

James Jake Wiley  
James Thomas Workman

**Temporary Permits** - The following temporary permits were approved by the Executive Director and ratified by the Board:

Gerard James Gyles T3768  
Alan David Westheimer T3769  
Nicholas A. Sinigaglia T3770  
Michele Healy Reisch T3771  
Paul Joseph Thomas T3772  
Ray Van der Horst T3773  
Elaine May Kontos T3774  
Thomas Dean Childers Jr. T3775  
Bill R. Morris T3776

Robert Franklin Palmer T3777  
Kiala L. Felder T3778  
B. Bishop Norris T3779  
Lisa P. Sawicki T3780  
Bryan G. Bryant T3781  
Jeffery Louis Vanek T3782  
Jared Marshall Cost T3783  
Regina Hall Rudolph T3784

**Reinstatements** - The following were approved:

Lori Renee Callaway #22146  
Jennifer Lynn Coats #31017  
Steven Talmadge Kirkman #20322  
Lisa L. Konevitch #25762

David Lee McInturff #4266  
Sharon D. Robertson #23214  
Tracey Lee Rogers #27860  
Terence Blaney Stanaland #20675

**Reissuance of New Certificate** - An application for reissuance of new certificate and consent agreement submitted by David Richard Herrman (#20929) was approved.

**Firm Registrations** - The following professional corporations, professional limited liability companies, and limited liability partnerships were approved by the Executive Director and ratified by the Board:

Pamela M. Barnes, CPA, PLLC  
HAMIL, LEHMAN & ENGLAND, P.C.  
HARVEY & PARMELEE LLP  
KELLY & SMALL CPA'S, LLP  
McNAIR, McLEMORE, MIDDLEBROOKS  
& CO., LLP

Robert L. Sanders, CPA, PA  
Robert E. Starkey, CPA, PLLC  
Turner & Turner CPAs, PLLC  
Wall, Einhorn & Chernitzer, P.C.

**Reclassifications** - The Committee approved the request for retired status submitted by Pete Alexander Harward (#13977) because he is completely retired and does not receive any earned compensation for current personal services in any job whatsoever.

**CPE Matters** - Messrs. Cox and Clark moved to approve a procedure in which the Executive Staff will review ethics CPE course updates and either approve the courses or

return the courses to the providers for corrections. Courses approved by the Executive Staff will be referred for approval to the Professional Education and Applications Committee and then to the full Board. Motion passed.

Messrs. Cox and Harris moved to approve a procedure in which the Executive Staff will review new ethics CPE courses and either approve the courses or return the courses to the providers for corrections. Courses approved by the Executive Staff will be reviewed and approved by the Professional Education and Applications Committee and then approved by the full Board. Motion passed.

Staff approved the CPE Sponsor, *College Assistance Plus of Raleigh*. The Committee ratified staff approval.

**Examinations** - The Committee reviewed and approved the following staff approved applicants to sit for the Uniform CPA Examination:

Adams, Jennifer	Harper, Helen
Al-Drubi, Bassam	Hedgepeth, Mary
Allen, Julianna	Heyward, Moneque
Aylward, Ann	Hines, Heather
Barnes, Kelly	Honeycutt, Lisa
Beegle, Ronda	Houck, Turkessa
Bethel, Jonathan	Hunter, Megan
Boring, Heather	Inman, KaSondra
Bouldin, Matthew	Johnson, Veronika
Boyce, Cortney	Jones, James
Brady, Jennifer	Kirkland, Jessica
Bunn, Brian	Laster, Kristen
Campbell, Wendell	Lawson, Audra
Carnahan, Katelin	Lenderman, Jerod
Clay, Dora	Leung, Dana
Crouse, Lisa	Littlejohn, Paige
Curtis, Sheena	Lull, Andrew
Daniels, Kyle	Mammen, Suby
Dave, Sunita	Marron, Heather
Davidson, Sarah	Martin, Deyva
Farmer, Devin	McCausland, Joseph
Fogle, Mark	McClelland, James
Gault, Teresa	McIntyre, Alan
Gibbs, Anna	McLean, Neil
Glover, Tawnya	McPeters, Natalie
Goodman, April	Medlin, Benjamin
Green, Brandon	Mehta, Alap

Moon, Carrie  
Moran, Jessica  
Olsen, Megan  
Patton, Terry  
Phillips, John  
Porter, Jason  
Pratt, Benjamin  
Ramakrishna, Samir  
Reddick, Ashley  
Roberson, Stacy  
Sage, Brenda  
Schiller, Michelle  
Skillman, Crystal  
Smith, Ashley  
Snyder, Meredith  
Spears, Brandon

Stone, Rebecca  
Swindell, James  
Szarpa, Michael  
Tang, Binh  
Taylor, Demetria  
Tucker, Rhonda  
Vaughn, Brandon  
Wei, Li  
Willett, Charles  
Williams, Elizabeth  
Williams, James  
Wimbush, Laverne  
Womble, Jeanne  
Yang, Ping

**Rescind Form of Practice Statements** - Rodney Segraves (#12915) signed a Form of Practice Statement due to his employment. However, due to a change in the licensee's employment status, staff recommended that the statements be rescinded. The Committee approved staff recommendation.

**PUBLIC HEARING:** President Jones moved to convene the Public Hearing scheduled to hear Case No. 200603-032, William M. Faircloth. Mr. Faircloth and Robert N. Brooks were sworn and presented testimony. Messrs. Jones and Gause moved to enter Closed Session to consider the matter. The Board re-entered the Public Hearing and Messrs. Harris and Cox moved to approve a Board Order requiring Mr. Faircloth to remove "Chestnutt" from his firm name within 30 days of the date of the Board Order. Motion passed with seven affirmative votes and zero negative votes. The entire Public Hearing is a matter of public record. (Appendix III)

**RULE-MAKING HEARING:** President Jones moved to convene the Rule-Making Hearing to hear comments on 21 NCAC 08G .0401, .0403, .0404, .0406, .0409, and .0410. There were no oral comments by individuals present at the hearing and all written comments were made part of the public record. President Jones closed the Hearing. The entire Rule-Making Hearing is a matter of public record.

**CLOSED SESSION:** Messrs. Jordan and Harris moved the enter Closed Session with the Executive Staff and Legal Counsel to discuss legal matters. Motion passed.

**PUBLIC SESSION:** Messrs. Winstead and Harris moved to re-enter Public Session to continue with the agenda. Motion passed.

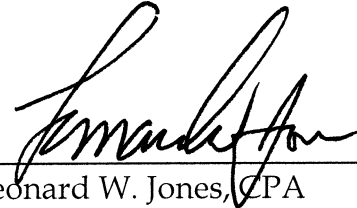
**ADJOURNMENT:** Messrs. Jordan and Gause moved to adjourn the meeting at 1:40 p.m. Motion passed.

Respectfully submitted:

Attested to by:

A handwritten signature in black ink, appearing to read "Robert N. Brooks", written over a horizontal line.

Robert N. Brooks  
Executive Director

A handwritten signature in black ink, appearing to read "Leonard W. Jones", written over a horizontal line.

Leonard W. Jones, CPA  
President

**NORTH CAROLINA STATE BOARD  
OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED  
MARCH 31, 2006 AND 2005**

NORTH CAROLINA STATE BOARD OF  
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

BOARD MEMBERS

Leonard W. Jones, CPA, President  
Arthur M. Winstead, Jr., CPA, Vice-President  
Jordan C. Harris, Jr., Secretary-Treasurer  
Norwood G. Clark, Jr., CPA  
Tyrone Y. Cox, CPA  
Thurman L. Gause  
Michael C. Jordan, CPA

EXECUTIVE DIRECTOR

Robert N. Brooks

DEPUTY DIRECTOR

J. Michael Barham, CPA

LEGAL COUNSEL

Noel L. Allen, Esq.



NORTH CAROLINA STATE BOARD OF  
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS

FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

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**NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED MARCH 31, 2006**

The following is a discussion and analysis of the Board's financial performance for the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements which follow this section.

**Financial Highlights**

The operating revenues of the Board increased \$154,840, or 9.27%, due primarily to an increase in the examination fee revenue due to an increase in the hourly testing fees and the number of candidates sitting for the Uniform CPA Examination.

The net non-operating revenues of the Board decreased \$13,480, or 27.84%, due primarily to the cost of building improvements, consisting of replacing carpet and wallpaper in leased space. The Board entered into a lease agreement effective April 1, 2006.

The operating expenses of the Board increased by \$150,479, or 8.92%, due primarily to an increase in both examination fees and employee salaries and benefits. Examination fee expense increased due to more candidates sitting for the Uniform CPA Examination and a \$5.50 increase in the hourly testing fee, effective July 1, 2005.

**Overview of the Financial Statements**

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of two components: 1) financial statements, and 2) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Basic Financial Statements**

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Assets (page 5) present the current and non-current portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Assets (page 6) present information on how the Board's assets changed as a result of the year's operations.

The Statements of Cash Flows (page 7) present information on how the Board's cash changed as a result of the year's activity.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

**Basic Financial Statements – Continued**

The following presents condensed financial information on the operations of the Board:

	As of and for the fiscal year ended March 31, 2006	As of and for the fiscal year ended March 31, 2005
Current assets	\$ 1,816,596	\$ 1,874,517
Capital assets - net of depreciation	1,069,944	1,059,230
Total assets	<u>2,886,540</u>	<u>2,933,747</u>
Current liabilities	378,465	449,373
Non-current liabilities	37,552	35,839
Total liabilities	<u>416,017</u>	<u>485,212</u>
Invested in capital assets	1,069,944	1,059,230
Unrestricted	1,400,579	1,389,305
Total net assets	<u>\$ 2,470,523</u>	<u>\$ 2,448,535</u>
Operating revenues	\$ 1,825,548	\$ 1,670,708
Operating expenses	1,838,506	1,688,027
Operating income	(12,958)	(17,319)
Non-operating revenues	34,946	48,426
Change in net assets	<u>\$ 21,988</u>	<u>\$ 31,107</u>

A comparison of budget to actual operations is presented on page 18. Actual expenses were over budgeted amounts, primarily due to higher than expected examination expenses. However, actual revenues were also over budgeted amounts by a larger amount due primarily to higher than expected examination revenues.

**Events Affecting Future Operations**

Lease Agreement - Effective April 1, 2006, the Board entered into a three-year lease agreement with the North Carolina Cleanwater Management Trust Fund that will increase the non-operating revenues of the Board. The annual lease amount is \$36,544.

Examination Scholarship Award and Coupon Program - Also effective April 1, 2006, the Board approved a Uniform CPA Examination "coupon" program and a graduate-level scholarship award program. Under the "coupon" program, the Board will award a "coupon" to one financially needy student graduating with an undergraduate degree in accounting at each of the 36 North Carolina colleges and universities with an additional "coupon" awarded to a financially needy student graduating with an undergraduate degree in accounting at each of North Carolina's historically

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED MARCH 31, 2006

**Events Affecting Future Operations – Continued**

black colleges and universities. Under the graduate-level scholarship program, the Board will award a \$1,000 scholarship to one financially needy student pursuing a graduate-level degree at each of the 10 North Carolina colleges and universities which offer a graduate-level degree in accounting. The costs of the "coupon" program and the graduate-level scholarship program for the next fiscal year are expected to be \$34,965 and \$10,000 respectively.

Increase in Examination Vendor Fees - Effective August 15, 2006, the American Institute of Certified Public Accountants will increase the per-section examination fee from \$45 to \$65; Prometric will increase the per-test hour fee from \$22.50 to \$23.11, and the National Association of State Boards of Accountancy will increase the per-section examination fees from \$10 to \$15. The Board will increase the examination vendor fees charged to examination candidates by the same amounts, resulting in an increase in examination fee revenues and expenses. The Board's administrative fee for initial examination applicants and re-examination applicants will not increase.

**Contacting the Board's Management**

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and expends. If you have any questions about this report or need additional information, contact: North Carolina State Board of Certified Public Accountant Examiners, PO Box 12827, Raleigh, NC 27605-2827.

**BOYCE, FURR & COMPANY, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA**

**INDEPENDENT AUDITORS' REPORT**

Governor Michael Easley  
The General Assembly of North Carolina  
North Carolina State Board of Certified Public Accountant Examiners

We have audited the statements of net assets of the North Carolina State Board of Certified Public Accountant Examiners as of March 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Board of Certified Public Accountant Examiners as of March 31, 2006 and 2005, and the results of its operations, changes in financial position, and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 2, 2006

*Boyce, Furr & Company, LLP*

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
STATEMENTS OF NET ASSETS  
AS OF MARCH 31

ASSETS	2006	2005
Current assets		
Cash and cash equivalents	\$ 486,500	\$ 675,871
Certificates of deposit	1,309,448	1,150,647
Accrued interest receivable	20,573	47,999
Accounts receivable	75	-
Total current assets	<u>1,816,596</u>	<u>1,874,517</u>
Capital Assets		
Land	300,000	300,000
Building	633,293	659,823
Furniture	451	612
Equipment	65,719	33,432
Software	63,402	51,750
Vehicle	7,079	13,613
Total capital assets-net of depreciation	<u>1,069,944</u>	<u>1,059,230</u>
 TOTAL ASSETS	 <u>2,886,540</u>	 <u>2,933,747</u>
LIABILITIES		
Current liabilities		
Accounts payable	31,140	38,931
Due to examination vendors	223,325	208,117
Unearned revenue	124,000	202,325
Total current liabilities	<u>378,465</u>	<u>449,373</u>
Noncurrent liabilities		
Accrued vacation	37,552	35,839
Total noncurrent liabilities	<u>37,552</u>	<u>35,839</u>
 TOTAL LIABILITIES	 <u>416,017</u>	 <u>485,212</u>
NET ASSETS		
Invested in capital assets	1,069,944	1,059,230
Unrestricted net assets	<u>1,400,579</u>	<u>1,389,305</u>
 TOTAL NET ASSETS	 <u>\$ 2,470,523</u>	 <u>\$ 2,448,535</u>

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED MARCH 31

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Examination fees		
Examination candidates	\$ 820,264	\$ 695,125
Other	<u>2,250</u>	<u>1,050</u>
	<u>822,514</u>	<u>696,175</u>
Licensing fees		
Certificate fees	921,000	899,155
Professional corporation fees	34,570	32,635
Partnership registration fees	<u>33,750</u>	<u>29,590</u>
	<u>989,320</u>	<u>961,380</u>
Sale of labels and lists	11,569	11,626
Miscellaneous	<u>2,145</u>	<u>1,527</u>
	<u>13,714</u>	<u>13,153</u>
<b>TOTAL OPERATING REVENUES</b>	<u>1,825,548</u>	<u>1,670,708</u>
<b>OPERATING EXPENSES</b>		
Administrative (page 15)	1,314,895	1,261,569
Examination (page 16)	486,263	395,104
Building (page 17)	<u>37,348</u>	<u>31,354</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,838,506</u>	<u>1,688,027</u>
<b>OPERATING LOSS</b>	<u>(12,958)</u>	<u>(17,319)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest income	75,025	72,333
Gains (loss) on sale/disposition of equipment	45	(2,118)
Building expenses (page 17)	<u>(40,124)</u>	<u>(21,789)</u>
<b>TOTAL NON-OPERATING REVENUES</b>	<u>34,946</u>	<u>48,426</u>
<b>CHANGE IN NET ASSETS</b>	21,988	31,107
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,448,535</u>	<u>2,417,428</u>
<b>NET ASSETS - ENDING OF YEAR</b>	<u>\$ 2,470,523</u>	<u>\$ 2,448,535</u>

The accompanying notes are an integral part of these financial statements.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED MARCH 31

	2006	2005
Cash flows provided from (used for) operating activities		
Cash received from fees	\$ 1,733,509	\$ 1,660,855
Other cash received	13,714	13,153
Cash payments to employees for services	(607,767)	(568,447)
Cash payments for administrative, examination, and building expenses	(1,177,920)	(951,489)
Net cash (used for) provided from operating activities	<u>(38,464)</u>	<u>154,072</u>
Cash flows provided from (used for) capital and related financing activities		
Acquisition and construction of capital assets	(60,846)	(70,551)
Proceeds from the sale of assets	45	20
Net cash used for capital and related financing activities	<u>(60,801)</u>	<u>(70,531)</u>
Cash flows provided from (used for) investing activities		
Proceeds from maturing certificate of deposit	562,980	95,000
Purchase of certificates of deposit	(721,780)	(350,647)
Interest on investments	102,451	68,390
Rental building expense	(33,757)	(10,175)
Net cash used for investing activities	<u>(90,106)</u>	<u>(197,432)</u>
Net decrease in cash	(189,371)	(113,891)
Cash - beginning of year	<u>675,871</u>	<u>789,762</u>
Cash - end of year	<u>\$ 486,500</u>	<u>\$ 675,871</u>
Reconciliation of operating loss		
to net cash provided from (used for) operating activities		
Operating loss	\$ (12,958)	\$ (17,319)
Adjustments to reconcile operating loss		
to net cash provided from (used for) operating activities:		
Depreciation	43,764	33,769
Changes in assets and liabilities		
Prepaid insurance	-	3,361
Accounts receivable	(75)	-
Accounts payable	(7,791)	15,857
Due to examination vendors	15,208	110,459
Unearned revenue	(78,325)	3,300
Accrued vacation	1,713	4,645
Total adjustments	<u>(25,506)</u>	<u>171,391</u>
Net cash (used for) provided from operating activities	<u>\$ (38,464)</u>	<u>\$ 154,072</u>



NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

**Note 1 - Nature of Activities and Significant Accounting Policies**

**Description of Organization and Reporting Entity**

The North Carolina State Board of Certified Public Accountant Examiners is an independent State agency. It is an occupational licensing board authorized by Chapters 93 and 93B of the North Carolina General Statutes (NCGS). The Board is composed of seven members: five persons who are holders of valid and unrevoked certified public accountant certificates issued under the provisions of NCGS 93, and two persons who are not certified public accountants and represent the public at large. All members are appointed by the Governor.

The Board's primary responsibilities are to administer the Uniform CPA Examination, to grant certificates of qualification as certified public accountants to qualified persons, to register certified public accounting firms, and to enforce all statutes and rules of NCGS Chapter 93, and the North Carolina Administrative Code, Title 21, Chapter 08.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees. As of March 31, 2006 and 2005, the Board had approximately 16,906 and 16,848 licensees, respectively.

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of North Carolina because the State exercises oversight responsibility in that the Governor appoints the Board members, and public service is rendered within the State's boundaries. The accompanying financial statements present only the activity of the North Carolina State Board of Certified Public Accountant Examiners. Annually, the State of North Carolina issues basic financial statements, which include the activity of occupational licensing boards.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. The Board applied all applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 1 - Nature of Activities and Significant Accounting Policies, Continued

**Basis of Accounting**

In accordance with current GASB statements, the Board presents Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statements of Revenues, Expenses, and Changes in Net Assets demonstrate the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina State Board of Certified Public Accountant Examiners using the current financial resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of examination and license fees. Non-operating revenues and expenses consist of those revenues and expenses that are related to rental and investing types of activities and are classified as non-operating in the financial statements. Building expenses are allocated to operating and non-operating activities based on square footage.

**Budget Practices**

A budget for fiscal year ended March 31, 2006, was adopted by the Board and is prepared and reported on the accrual basis of accounting. Although budgeted amounts lapse at year-end, the Board retains its unexpended net assets to fund expenses of the succeeding year.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Board considers all investments with a maturity of three months or less when purchased to be cash.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 1 - Nature of Activities and Significant Accounting Policies, Continued

**Certificates of Deposit**

As of the March 31, 2006, the Board owned the following certificates of deposit at local financial institutions:

<u>Maturity Date</u>	<u>Rate</u>	<u>Fair Value</u>
06/24/06	3.800%	\$ 308,739
07/12/06	4.350%	97,002
10/13/06	4.000%	97,988
01/24/07	4.250%	98,707
01/30/07	4.150%	97,640
06/22/07	4.125%	309,372
06/21/08	4.250%	<u>300,000</u>
Total certificates of deposit		<u>\$ 1,309,448</u>

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 1 - Nature of Activities and Significant Accounting Policies, Continued

**Property and Equipment**

Property and equipment are stated at cost and are being depreciated over their useful lives on a straight-line basis. The Board's policy is to capitalize property and equipment when acquired at a cost of \$500 or more. A summary follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 300,000	\$ -	\$ -	\$ 300,000
Building	781,318	-	-	781,318
Furniture	118,223	-	(2,432)	115,791
Equipment	129,886	44,116	(17,016)	156,986
Software	54,058	16,730	-	70,788
Vehicle	32,672	-	-	32,672
Totals at historical cost	<u>1,416,157</u>	<u>60,846</u>	<u>(19,448)</u>	<u>1,457,555</u>
Less accumulated depreciation for:				
Building	(121,495)	(26,530)	-	(148,025)
Furniture	(117,611)	(161)	2,432	(115,340)
Equipment	(96,454)	(11,829)	17,016	(91,267)
Software	(2,308)	(5,078)	-	(7,386)
Vehicle	(19,059)	(6,534)	-	(25,593)
Total accumulated depreciation	<u>(356,927)</u>	<u>(50,132)</u>	<u>19,448</u>	<u>(387,611)</u>
Capital assets, net	<u>\$ 1,059,230</u>	<u>\$ 10,714</u>	<u>\$ -</u>	<u>\$ 1,069,944</u>

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the financial records. Any gain or loss on disposition is reflected in the earnings for the period.

**Vacation and Sick Leave**

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. The executive director may accumulate up to forty-five days earned vacation. On March 31, accrued vacation in excess of the limits is transferred and added to sick leave balances.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been recognized.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 1 - Nature of Activities and Significant Accounting Policies, Continued

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

Note 2 - Deposits and Investments

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates and to protect principal, the board's investment policy limits its investments to maturities that coincide with required cash flows and to accounts and financial instruments of the highest quality as follows:

- (1) Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- (2) Obligations of the State of North Carolina.
- (3) Time deposits of financial institutions with a physical presence in North Carolina.

*Custodial Credit Risk.* The Board maintains accounts consisting of cash, certificates of deposit, and money market funds with three banks in which the Federal Depository Insurance Corporation (FDIC) insurance of \$100,000 per depositor was exceeded by a combined total of \$1,304,610 on March 31, 2006. Management believes there is minimum credit risk relative to its cash investments. Throughout the fiscal year the Board's deposits exceeded the amounts insured by the Federal Insurance Depository Insurance Corporation.

Note 3 – Unearned Revenue

For both 2006 and 2005, certificate renewal fees collected in advance are recorded as unearned revenue at year-end and recognized as revenue when the license period begins in the next fiscal year.

Note 4 - Net Assets

Invested in capital assets - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 4 - Net Assets, Continued

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets*.

The Board has designated a portion of the unrestricted net assets to cover future activities. The Board may change such designated amounts based on perceived operating conditions and situations. Designated amounts at March 31, 2006, were as follows:

Litigation	\$ 600,000
Operating expenses	300,000
Capital asset acquisitions and/or improvements	300,000
Uniform CPA Examination testing center	<u>100,000</u>
Total	<u><u>\$ 1,300,000</u></u>

Note 5 - Operating Leases

The Board's building lease agreements terminated during 2004. The Board has relocated staff to a portion of the previously leased space and has signed a three-year lease agreement with the North Carolina Cleanwater Management Trust Fund effective April 1, 2006, for the remaining space. Future minimum lease income for the next three years will be as follows:

<u>Fiscal Year Ended</u>	<u>Minimum Lease Income</u>
03/31/07	\$ 36,544
03/31/08	36,544
03/31/09	<u>36,544</u>
Total	<u><u>\$ 109,632</u></u>

Note 6 - Pension Plan

The Board participates in the North Carolina Licensing Board Retirement Savings Plan, a defined contribution plan. A 6% contribution, based on eligible employee compensation, is made monthly by both employer and employee. Employees are eligible to participate in the plan immediately upon employment. Employees are vested 20% for each year of service and may make voluntary contributions to the plan over their 6% contribution. The 401(k) plan is administered by Wachovia Securities. Pension costs, including administrative fees, totaled \$35,964, and \$31,449 for 2006 and 2005, respectively. Employee contributions totaled \$44,753 and \$40,938 for 2006 and 2005, respectively.

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED MARCH 31, 2006 AND 2005

Note 7 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of board members up to \$500,000 are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's \$5,000,000 public officers' and employees' liability insurance contract with a private insurance company. The Board also protects itself from exposures to loss through the purchase of commercial insurance, of which coverage includes building and contents, commercial liability, workers compensation and employers' liability, and vehicle.

Note 8 – Contract Commitment

The Board entered into a software and support contract in February 2005 requiring payments totaling \$81,750. Payments on the contract during the fiscal year ended March 31, 2006 and 2005 totaled \$23,480 and \$51,750 respectively.

Note 9 – Scholarship Award Programs

Effective April 1, 2006, the Board approved a Uniform CPA Examination "coupon" program and graduate-level scholarship award program. The costs of the "coupon" program and the graduate-level scholarship award program for the next fiscal year are expected to be approximately \$34,965 and \$10,000 respectively.

**NORTH CAROLINA STATE BOARD OF  
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
SUPPLEMENTARY SCHEDULES**



NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
SUPPLEMENTARY SCHEDULES OF ADMINISTRATIVE EXPENSES

	For the Fiscal Years Ended March 31	
	2006	2005
ADMINISTRATIVE EXPENSES		
Salaries and employee benefits	\$ 782,694	\$ 733,837
Legal counsel and hearing expense	166,308	168,130
Postage	79,602	92,083
Travel and per diem - Board members	72,158	74,979
Printing	37,973	43,336
Staff travel	28,465	24,704
Depreciation	23,602	17,056
Computer programming and assistance	21,747	4,089
Credit card fees for license renewals	20,679	17,267
Office supplies	11,795	10,070
Computer software	10,032	16,845
Internet website	8,433	2,678
Telephone	7,828	8,100
Dues	6,975	7,030
Repairs and maintenance on equipment	5,815	9,768
Audit fees	5,660	7,010
Subscriptions	5,259	3,948
Consulting services	4,660	-
Clipping service	2,987	2,435
Banking fees	2,730	532
Miscellaneous	2,449	2,466
Continuing education	2,079	4,607
Insurance	2,062	4,525
Payroll service	1,505	1,430
Clerical expense - Board members	1,104	1,250
Equipment rental	270	954
Temporary contractors	24	2,440
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 1,314,895</u>	<u>\$ 1,261,569</u>

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
SUPPLEMENTARY SCHEDULES OF EXAMINATION EXPENSES

	For the Fiscal Years Ended March 31	
	<u>2006</u>	<u>2005</u>
EXAMINATION EXPENSES		
Examinations and grading	\$ 483,638	\$ 390,774
Postage	2,000	4,070
Printing	590	260
Miscellaneous	<u>35</u>	<u>-</u>
TOTAL EXAMINATION EXPENSES	<u>\$ 486,263</u>	<u>\$ 395,104</u>

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
SUPPLEMENTARY SCHEDULES OF BUILDING EXPENSES

	For the Fiscal Years Ended March	
	<u>2006</u>	<u>2005</u>
OPERATING BUILDING EXPENSES		
Depreciation	\$ 20,162	\$ 16,713
Utilities	7,825	5,819
Maintenance	7,877	7,370
Insurance	<u>1,484</u>	<u>1,452</u>
TOTAL OPERATING BUILDING EXPENSES	<u>\$ 37,348</u>	<u>\$ 31,354</u>
NON-OPERATING BUILDING EXPENSES		
Depreciation	\$ 6,367	\$ 11,614
Improvements	28,329	-
Utilities	2,471	4,044
Maintenance	2,488	5,122
Insurance	<u>469</u>	<u>1,009</u>
TOTAL NON-OPERATING BUILDING EXPENSES	<u>\$ 40,124</u>	<u>\$ 21,789</u>

NORTH CAROLINA STATE BOARD OF CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
SCHEDULES OF BUDGET AND ACTUAL  
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Fiscal Year Ended March 31, 2006		
	Budget	Actual	Over (Under) Budget
REVENUES			
Examination fees	\$ 743,739	\$ 822,514	\$ 78,775
Licensing fees	1,007,250	989,320	(17,930)
Other	72,000	88,784	16,784
TOTAL REVENUES	<u>1,822,989</u>	<u>1,900,618</u>	<u>77,629</u>
EXPENSES			
Personnel	853,316	813,238	(40,078)
Examination	473,269	486,263	12,994
Office	243,180	238,485	(4,695)
Board and legal	242,423	239,570	(2,853)
Building, net of rentals	33,279	50,943	17,664
Depreciation	-	50,131	50,131
TOTAL EXPENSES	<u>1,845,467</u>	<u>1,878,630</u>	<u>33,163</u>
CHANGE IN NET ASSETS	(22,478)	21,988	44,466
NET ASSETS - BEGINNING OF YEAR	<u>2,417,428</u>	<u>2,448,535</u>	<u>31,107</u>
NET ASSETS - END OF YEAR	<u>\$ 2,394,950</u>	<u>\$ 2,470,523</u>	<u>\$ 75,573</u>

For the Fiscal Year Ended March 31, 2005

<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
\$ 550,792	\$ 696,175	\$ 145,383
992,250	961,380	(30,870)
102,000	83,368	(18,632)
<u>1,645,042</u>	<u>1,740,923</u>	<u>95,881</u>
803,534	767,272	(36,262)
360,322	395,104	34,782
203,770	232,882	29,112
238,808	244,359	5,551
27,904	24,816	(3,088)
-	45,383	45,383
<u>1,634,338</u>	<u>1,709,816</u>	<u>75,478</u>
10,704	31,107	20,403
<u>2,417,428</u>	<u>2,417,428</u>	<u>-</u>
<u>\$ 2,428,132</u>	<u>\$ 2,448,535</u>	<u>\$ 20,403</u>

NORTH CAROLINA  
WAKE COUNTY

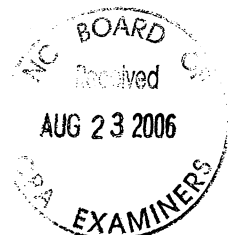
BEFORE THE NORTH CAROLINA STATE BOARD OF  
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
CASE #: 200409-036

IN THE MATTER OF:  
Jack Vernon Abernethy, #14547  
Respondent

CONSENT ORDER

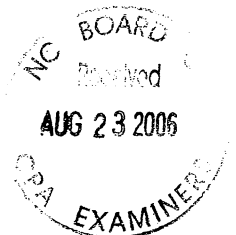
THIS CAUSE, coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, with a quorum present. Pursuant to NCGS 150B-41, the Board and Respondent stipulate the following Findings:

1. Respondent was the holder of North Carolina certificate number 14547 as a Certified Public Accountant.
2. In July of 2005, Respondent requested that his North Carolina CPA certificate be placed on inactive status. Respondent nevertheless remained eligible for reinstatement under the Board's rules inasmuch as his certificate had not been revoked, and, additionally, because the conduct in question occurred during the time when Respondent was actively licensed.
3. Respondent signed on April 14, 2006, and the United States District Court for the District of New Jersey, Camden Vicinage (Court), approved and entered on July 7, 2006, a Consent Order of Permanent Injunction and Other Ancillary Relief Against Defendant J. Vernon Abernethy (Order) pursuant to Civil Action No.: 04 CV 1512 in regarding the litigation entitled, "Commodity Futures Trading Commission, Plaintiff, vs. Equity Financial Group LLC, Tech Traders, Inc., Tech Traders, Ltd., Magnum Investments, Ltd., Magnum Capital Investments, Ltd., Vincent J. Firth, Robert W. Shimer, Coyt E. Murray and J. Vernon Abernethy, Defendants" Respondent consented to and the Court made the following "Findings of Fact:"
  - a. "Corporation A and Individual A engaged Abernethy as an allegedly independent certified public accountant ('CPA') to provide a monthly and quarterly performance number for the 'superfund' based on 'reviewed' and 'verified' trading results. Abernethy prepared monthly and quarterly reports showing



that Corporation A enjoyed trading gains from at least June 2001 through February 2004, knowing that the reports were false and that such reports would be provided to prospective and actual participants whom Abernethy knew or should have known would rely upon not only the information included, but also the fact that it had been reviewed and verified by an independent CPA."

- b. "All of the participants in the 'superfund' did rely upon the monthly and quarterly performance number Abernethy provided in deciding to participate or continue to participate in the 'superfund.' In reliance on such monthly and quarterly performance numbers, at least 40 participants have lost at least \$5 million."
  - c. "Abernethy undertook a faulty agree-upon procedures engagement which was not consistent with professional standards, was not independent, did not review all the trading, did not take any steps to 'verify' anything, and reported materially inaccurate performance gains, despite possessing documents that disclosed huge trading losses."
  - d. "Abernethy also solicited at least 10 pool participants for Corporation A and Shasta Capital Associates, L.L.C. ('Shasta'), a commodity pool that invested in the 'superfund' without being registered to do so using the performance results from the reports he prepared. Abernethy knew that these same performance results were featured in solicitations by Corporation A, Individual A, Corporation F, the commodity pool operator that ran Shasta, and Individual B and C, the control persons of Corporation F. He also knew that these same performance results were false and that they were used to prepare statements sent to pool participants."
4. Based upon its "Findings of Fact," the Court made (and Respondent Consented to) the following "Conclusions of Law:"
- a. "From at least June 2001 to April 2004, Abernethy employed devices, schemes or artifices to defraud clients or prospective clients, and engaged in transactions, practices or courses of business which operated as a fraud or deceit upon clients or



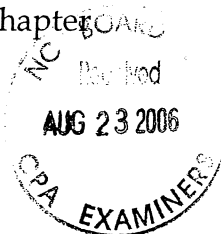
prospective clients, in violation of Section 4o(1) of the Act, 7 U.S.C. § 6o(1)."

- b. "During the relevant time period, Abernethy was associated with Corporation A and Corporation E as a partner, officer, employee, consultant, or agent (or in a similar status), in a capacity that involved the solicitation of funds, securities or property for participation in Corporation A and Corporation E, in violation of Section 4, (2) of the Act, 7 U.S.C. § 6k(2) (2002)."
5. Pursuant to the Order, Respondent agreed not to practice before the Commodity Futures Trading Commission as an accountant for a period of ten (10) years following the entry of the Order, not to accept any engagement that involves the review or analysis of commodity pool statements, and not to accept any engagement that involves the analysis of futures or options statements. Respondent also agreed that he is jointly and severally liable for and a judgment was entered against Respondent in the amount of \$5,000,000.00 as restitution, and that he is liable for and a judgment is entered against him for a civil monetary penalty of \$300,000.00, plus post judgment interest.
6. Respondent wishes to resolve this matter by consent and agrees that the Board staff and counsel may discuss this Order with the Board *ex parte*, whether or not the Board accepts this Order as written.

BASED upon the foregoing, the Board makes the following Conclusions of Law:

1. Respondent is subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
2. Respondent's discipline as imposed in the Court's July 7, 2006, Order constitutes violations of NCGS 93-12 (9)d and (9)e and 21 NCAC 8N .0201, .0202 (b) (7) and (8), .0203, .0204 (a) and (b), .0402, and .0406.

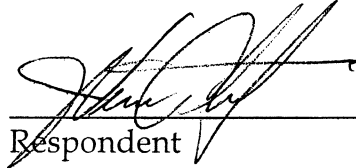
BASED on the foregoing and in lieu of further proceedings under 21 NCAC Chapter 8C, the Board and Respondent agree to the following Order:





1. The Certified Public Accountant certificate issued to Respondent, Jack Vernon Abernethy, is hereby permanently revoked.

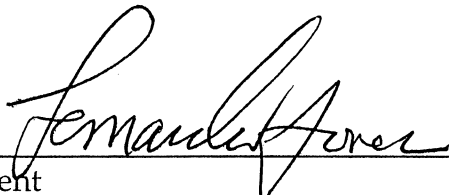
CONSENTED TO THIS THE 21<sup>st</sup> DAY OF August, 2006.

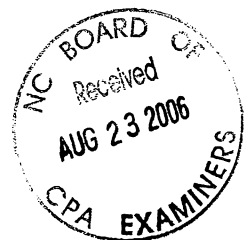
  
Respondent

APPROVED BY THE BOARD THIS THE 18 DAY OF SEPTEMBER, 2006.



NORTH CAROLINA STATE BOARD OF CERTIFIED  
PUBLIC ACCOUNTANT EXAMINERS

BY:   
President



NORTH CAROLINA  
WAKE COUNTY

BEFORE THE NORTH CAROLINA STATE BOARD OF  
CERTIFIED PUBLIC ACCOUNTANT EXAMINERS  
CASE #: 200603-032

IN THE MATTER OF:  
William Marshall Faircloth, #7216  
Faircloth, Chestnutt & Co., L.L.P.  
Respondent

BOARD ORDER

THIS CAUSE coming before the Board at its offices at 1101 Oberlin Road, Raleigh, Wake County, North Carolina, at public hearing, with a quorum present, the Board finds, based on the evidence presented at the hearing on September 18, 2006, that:

FINDINGS OF FACT

1. The parties have been properly identified.
2. The Board has jurisdiction over the Respondents and this matter.
3. Respondents received at least fifteen (15) days written Notice of Hearing of this Matter by personal service, certified mail, or other approved personal delivery.
4. Venue is proper and the Notice Hearing was properly held at 1101 Oberlin Road, Raleigh, North Carolina.
5. Respondents had no objection to any Board Member's participation in the Hearing of this Matter.
6. Respondent Faircloth, individually, and as a representative of Respondent firm, was present at the Hearing and was not represented by counsel.
7. Respondent Faircloth is the holder of a certificate as a Certified Public Accountant in North Carolina and Respondent firm is a licensed certified public accounting limited liability partnership in North Carolina and is therefore subject to the provisions of Chapter 93 of the North Carolina General Statutes (NCGS) and Title 21, Chapter 8 of the North Carolina Administrative Code (NCAC), including the Rules of Professional Ethics and Conduct promulgated and adopted therein by the Board.
8. In August of 2004, documents were filed with the North Carolina State Board of CPA Examiners (hereinafter the "Board") changing the firm name of "Chestnutt & Company, L.L.P." to "Faircloth, Chestnutt & Co.,

L.L.P.” Respondent firm’s ownership changed to reflect that Respondent Faircloth owned 49% of Respondent firm and Amos Johnson Chestnutt owned 51% of Respondent firm.

9. From September 2003 through August 2005, Amos Johnson Chestnutt was the subject of a disciplinary investigation by the Board. In August of 2005, the Board permanently revoked the CPA certificate of Amos Johnson Chestnutt.
10. In a letter purportedly dated July 7, 2005, but not received by the Board until August 1, 2005, Respondent Faircloth informed the Board that, effective July 1, 2005, the ownership of Respondent firm had changed and that Respondent Faircloth owned 60% and a non-CPA owned 40% of Respondent firm.
11. In an e-mail dated August 8, 2005, Board staff informed Respondent Faircloth that applicable rules require that there must be two CPA owners for Respondent firm to use a firm name that includes “and Company,” that the firm name could not include two names if it has only one CPA owner, and that, inasmuch as Faircloth was the only licensed owner, the partnership’s name could not include any name other than Respondent Faircloth’s name.
12. On August 19, 2005, the Board received documents from Respondent Faircloth informing the Board that, effective August 2, 2005, there were two CPA owners and one non-CPA owner in Respondent firm with Respondent Faircloth owning 59%, the non-CPA owning 40%, and Thomas J. Daniel, CPA, owning 1% of Respondent firm.
13. In October of 2005, Board staff informed Respondent Faircloth that, since the CPA license for Amos Johnson Chestnutt had been permanently revoked, the Respondent firm’s continued use of “Chestnutt” in the firm’s name was deceptive.
14. Despite numerous correspondences from the Board regarding use of “Chestnutt” in the firm name of Respondent firm, Respondent Faircloth has continued to offer services through Respondent firm.
15. The continued use by Respondent Faircloth and Respondent firm of “Chestnutt” in the name of Respondent firm’s limited liability partnership was false and inherently deceptive in that (a) it falsely states that

Chestnutt is a CPA when he is not, and (b) it falsely states that Chestnutt is an partner even though he is not permitted by rule to be an owner.

CONCLUSIONS OF LAW

1. Respondents' continued uses of "Chestnutt" in the firm name of Respondent firm are violations of NCGS 93-12 (9)e and 21 NCAC 8N .0103, .0201, .0202 and .0302. See, also, NCGS 93-4 (Prohibiting partnerships from using the CPA title unless all partners are licensees).

BASED ON THE FOREGOING, the Board orders in a vote of 7 to 0 that:

1. Respondents, within thirty (30) days of this date, shall have removed "Chestnutt" from the firm name, and accordingly revised all signage, letterhead, business cards, directory listings, telephone answering, advertising, marketing materials, Internet information, e-mail, and similar communications, whether oral or written. In the case of printed directories, Respondents shall submit proof to the Board that Respondents have instructed, by certified mail, the publishers to remove "Chestnutt" from the firm name.
2. If Respondents fail to timely comply with the requirements of Paragraph 1 of this Order, the Certified Public Accountant certificate issued to Respondent, William M. Faircloth, is hereby suspended for at least thirty (30) days but no longer than five (5) years. After at least thirty (30) days, Respondent may apply for modification of this discipline upon filing a firm registration with the Board reflecting the removal of "Chestnutt's" name from the name of Respondent firm, thus allowing Respondent to apply for reissuance of his CPA certificate.

This the 18<sup>th</sup> day of September, 2006.



NORTH CAROLINA STATE BOARD OF CERTIFIED  
PUBLIC ACCOUNTANT EXAMINERS

BY: \_\_\_\_\_

President